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A free, virtuous and enlightened people must know well the great principles and causes on which their happiness depends. — James Monroe



VOLUME III, NUMBER 36

WASHINGTON, D. C.

MAY 21, 1934

War Debt Question Comes up Once More

Nations Which Made Token Payments Not in Default but Cannot Borrow Further

LOANS WERE MADE IN GOODS

Issue Complicated Because of Many Transfer Difficulties Involved

The semiannual crisis of war debts looms again immediately before us. The reason there is a semiannual crisis is that the payments, principal and interest, from the debtor nations, is due on the 15th of December and again on the 15th of June each year. Last December certain of the nations, including France and Belgium, failed to make any payments at all and were therefore in default. Other nations, including Great Britain, made partial payments and were not declared to be in default. Now June 15 approaches. The debt question is still unsolved. The problem arises anew as to what will be done when the time for payment comes.

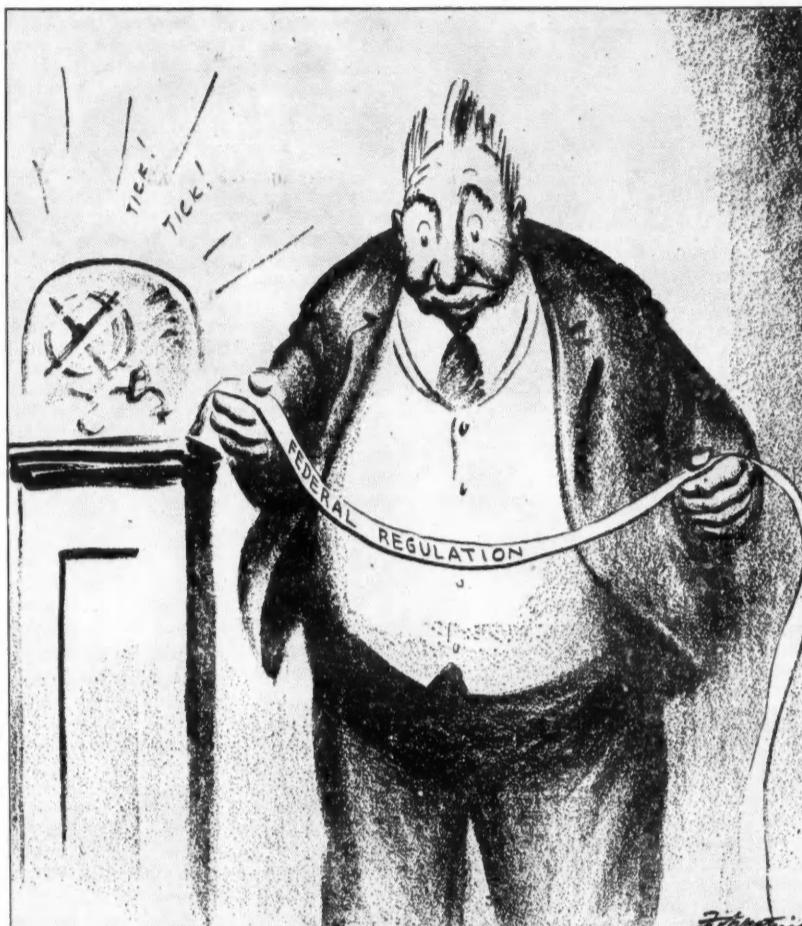
How Debts Arose

The amount at stake is very large. The total of the debts from all of the nations comes to about eleven billion dollars. These debts were contracted during the war or just after the war. The allied nations were in need of food materials for their armies and for their civilian populations. They were in need of cotton and other materials from which clothing might be made. They needed munitions and war supplies of all sorts. The people of the United States were in a position to supply these things. As the foreigners began to make purchases, the American factories redoubled their efforts, farmers sowed more grain, production was geared up to capacity. We were able to produce more than we had ever done before and the allies furnished the market for the surplus of products.

These nations at war could not, of course, pay for the goods at the time of the purchases. They bought on time; they gave their promises to pay. The exact time when payment would be made was not at first specified. After the war was over, the debts were "funded," that is, arrangements were made as to the terms of payment. All of the nations were to pay back what they had borrowed. Some of them were to pay a fair rate of interest. In other cases, the interest rate was very low on account of the supposed inability of the nations to pay higher rates. The payments were to be spread over a period of about sixty years.

For a while, the yearly payments were made quite regularly. During these years the foreigners continued to borrow from Americans. Foreign governments, cities and corporations, issued bonds and sold them in America, not to the government but to private citizens. American money passed to Europe and the foreign governments were able to use this money to make payments to our government on their debts. When hard times came to the world a few years ago, however, the flow of money from America to Europe stopped. The loans ceased. Then the debtor nations made the claim that they

(Continued on page 6)



BAD NEWS ON THE STOCK TICKER
—Fitzpatrick in St. Louis Post-DISPATCH

Looking Backward -- and Forward

With this issue of our paper, we complete another year of service to the schools. THE AMERICAN OBSERVER will be published as usual during the summer months, for it is a year-round publication. It will also be offered in the usual way to schools when the autumn term begins in September. It will be available for summer sessions throughout the summer months, but we are now closing the second semester of the current school year. We will be glad to receive single subscriptions for June, July and August from students who are not to attend a summer session, but who would like to continue their studies of public affairs. We hope, also, that next September we may renew the associations with schools and classes which are broken by the summer vacation.

But above all, we hope that those who have read THE AMERICAN OBSERVER during the semester or the school year may long continue to feel the influence of the studies it has afforded them. We have undertaken, during these eventful months, to trace accurately the course of public affairs. We have tried to explain, fairly and impartially, the meaning of events and movements. We have taken pains to select for presentation occurrences and issues which are significant, and to omit that which has been merely sensational. We hope that our readers are better acquainted with the immediate past as the result of these studies.

We realize, of course, that it is not enough merely to have become acquainted with passing events. Many of these events, which stand out so prominently now, will lose their significance with the passage of time. New situations will confront us. New issues will arise. In order to meet these new issues wisely, we must have done something more than to have become familiar with past events. We must have gained a habit of continuing attention to public affairs, and it is that continuing interest in and scientific attitude toward current social phenomena that we have tried to stimulate. We have tried to direct attention towards socially significant events, not merely that those particular events might be studied, but that a selective habit of mind might be encouraged. The test of this year's work lies before us. If we meet new situations in a spirit of intelligent inquiry, if we have learned to be broad-minded and tolerant and sympathetic and insistent upon the establishment of a greater measure of social justice, and of security, then we will be on the road to good citizenship. Then we can be assured that our studies of public affairs have permanently raised the levels of our conduct and our thinking.

Further Aid Needed for Heavy Industries

Continued Slump in Capital Goods Industry Prevents Full Recovery from Depression

GOVERNMENT PREPARES TO ACT

Securities Law Modification and Big Housing Program Among Plans

Is recovery really on the way? Are we getting back to normal times? Are the gains of the last year substantial? These questions are on every tongue. Unfortunately, no one is wise enough to give a definite and conclusive answer. But certain factors which may throw light upon the questions are fairly apparent.

It is clear that there has been considerable recovery in the case of certain industries. The upswing in the so-called consumer goods industries began a little more than a year ago. For several months during the spring and summer of 1933, there were decided increases in the purchases of goods which were intended for immediate use. To meet the new demands, there was an increase in the production of these goods—goods such as food, clothing, radios, and automobiles. There was increased employment in the industries producing such things. The American people were consuming more than they had been consuming. Certain kinds of industries were therefore stimulated and unemployment fell off considerably.

Employment Rises

There was a drop in consumption and production along such lines after the latter part of July, but this winter and spring the rise has been resumed. As a result of increasing production and consumption in a considerable section of American industry, unemployment has fallen from about 16,000,000 to something like 11,000,000. Of course, the increase in employment is not due wholly to the improvement in private industry. In part, it is due to expanding employment by the government through the PWA, CWA and other agencies.

But while the industries which cater to the immediate demands of consumers have been doing fairly well, there are other branches of industry which have been stagnant. The so-called capital goods industries have not been advancing. By capital goods industries, we mean the industries which produce such things as machinery, tools, railway cars, equipment of all kinds, industries engaged in construction activities; that is, the building of factories, business houses or residences. When industry is expanding, factory owners are enlarging their plants. They are engaging in new operations. They are constructing new branches. They are buying new machinery. Corporations are putting up office buildings. Railway companies are buying new cars and engines and they are improving their facilities. These industries, it will be observed, do not make things which are used immediately. They do not produce articles which are eaten or worn or consumed at once in any way. Their job is the creation of new capital. They produce the equipment by the use of which consumption goods are made.

(Concluded on page 7)



SOME PULITZER PRIZE WINNERS

Left to right: Robert Hillyer (poetry); Caroline Miller (fiction); Royce Brier (reporting);
Tyler Dennett (biography).

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Notes From the News

This Year's Pulitzer Prize Winners; Storm over Whistler Mother Stamp; Ritchie Wants Another Term; Wallace Warns Wheat Nations

THE annual Pulitzer prizes have been awarded. Joseph Pulitzer, the founder of these prizes, was an extremely successful newspaper publisher until his death in 1911. After working for a time as a special correspondent for the New York *Sun*, he acquired the St. Louis *Post-Dispatch* and made it the city's leading evening newspaper. In 1883 he bought the New York *World* and in 1887 he established the *Evening World*. He became well known throughout the country for the vigorous and independent editorial policies of his papers. In addition to creating a fund for a school of journalism at Columbia University, Mr. Pulitzer also established annual prizes in letters, drama, music and newspaper work. Not only do large cash awards accompany these prizes but they have a way of establishing reputations overnight for the winners, if these persons have not already made important names for themselves. Juries for the prizes are chosen from the staff of the Columbia University School of Journalism and from the National Institute of Arts and Letters.

Frederick T. Birchall was this year's prize winner for the best example of newspaper correspondence. His award of \$5,000, incidentally, was the highest given. Mr. Birchall is no novice in the newspaper business. He has been a news executive for the New York *Times* for twenty-seven years. From January, 1926, to the end of 1931 he was managing editor. By that time he had reached the normal retiring age. But Mr. Birchall was too much of a journalist at heart to quit. So he was sent abroad and later was placed in charge of the European service of the *Times*. He has done a splendid job of impartially reporting events which have taken place in Germany.

Caroline Miller's "Lamb in His Bosom" was selected as the best novel. It is her first novel. She is thirty years old and the mother of three small sons. She has spent her entire life in Georgia. Of her novel she says that she "got most of the local color from hereabouts, but the facts from family history and history of other families." The book has not had a wide sale although reviewers were united in their praise of it at the time of its appearance.

Edmund Duffy, of the Baltimore *Sun*, won the cartoon award for the second time. It was an indictment against Governor Rolph's attitude toward the mob hangings which occurred in California after a kidnapped person had been murdered. The cartoon depicted two men hanging from a tree, with Governor Rolph below pointing at the men. The caption of the cartoon read: "California Points with Pride."

"Men in White," by Sidney Kingsley, was chosen as the play "best representing the educational value and power of the

stage." This is Mr. Kingsley's first play to reach Broadway. It opened in New York last September and is still going strong. It is a story of doctors, hospitals and high ideals. The author is a native New Yorker, a graduate of Cornell and has appeared with stock companies and in a small role in a Broadway production.

"The People's Choice," by John G. Agar of New York City, was chosen as the best book. It is a series of personality sketches of our presidents, beginning with George Washington. He contends that six of the first seven presidents were men of stature, and all except four of their successors were a "feeble and meritless tribe." The four he rescues from abject humiliation are Lincoln, Cleveland, Theodore Roosevelt and Wilson. Harding was placed at the bottom of the list. The book does not continue beyond the Harding administration.

There were five other prizes given for significant literary or artistic contributions. The winners received awards ranging from \$500 to \$2,000.

Wallace Warns Foreign Nations

Secretary of Agriculture Wallace has served notice on the wheat-growing nations of the world that unless they curtail production the United States may go into production on a big scale and battle for the world's market. His warning was made in an address to the University of Georgia Institute of Public Affairs. He said that the London Conference, which was de-

signed to raise world prices of wheat by reducing output, has been a failure because other nations have not cooperated with the United States. "I trust that the other wheat-exporting nations will see the danger," he said, "and help the United States to restore the agreement to a working basis."

Whistler Stamp Dispute

The Museum of Modern Art, New York, is one of many art institutions that has protested to Postmaster General Farley concerning the new stamp which was issued in honor of the mothers of America. The stamp, which is a reproduction of the famous portrait, "My Mother," painted in 1872 by James Whistler, famous American painter and etcher, is said to be inartistic. "Whistler's original conception has been mutilated in the United States postage stamp," contends the Museum of Modern Art. It suggests to Mr. Farley that the lettering on the stamp be reduced to a minimum and that it be so placed as not to encroach on Whistler's composition. A new design was sent to Mr. Farley for his consideration.

The famous picture from which the stamp was reproduced belongs to the Louvre Art Gallery in Paris. It is said that art critics of this country did not fully appreciate Whistler's masterpiece when it was first painted, so Paris was fortunate enough to obtain the original. The Museum of Modern Art borrowed the portrait from the Louvre a number of months ago and has exhibited it in various parts of the country. It will soon be on its way back to France.

In this country Whistler is best represented in the Charles L. Freer Collection, now in the National Gallery, Washington, D. C. Many of his pictures are indistinct, mysterious. They appeal to the imagination. The more one sees of them, the more one sees in them.

Canadian Tourist Trade

Efforts are being made by Canada to regain some of its lost tourist trade. In 1929 tourists from other countries spent \$309,379,000 in Canada. This was within \$25,000,000 of the amount taken in by the forest industry, one of Canada's chief sources of income. However, by 1933 the revenue from tourists had dropped to \$117,000,000. That is one reason why Canadian business men and government officials are considering ways of attracting more visitors to enjoy the natural beauty of their country.

Criminal Law

Both President Roosevelt and Chief Justice Hughes of the United States Supreme Court urged the members of the American Law Institute, at their twelfth annual meeting in Washington, to adapt criminal law to modern conditions. President Roosevelt, in a message to the delegates, said:

"I need not point out to you that the adaption of our criminal law and its administration to meet the needs of a modern, complex civilization is one of our major problems. I believe the American Law Institute is in a position to make important contributions to the solution of this perplexing problem."



THE RETURN OF SAMUEL INSULL

After a long chase, the Chicago utilities magnate is back in this country to face the charges awaiting him.

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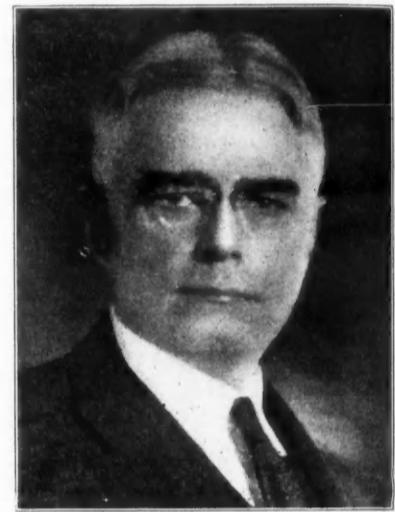
Chief Justice Hughes declared that no community can be trusted to promote social welfare which does not have the self-respect and stamina to insist upon the enforcement of its laws.

"In this instance, as in others," Mr. Hughes went on, "we suffer under our dual system of government from a failure of the public to put the responsibility where it belongs. The delinquencies of one state should not be charged to another state and those of the states should not be charged against the federal government."

The foremost lawyers of the country belong to the American Law Institute. Committees of the Institute make elaborate surveys on legal matters. Recommendations are frequently made by these committees for significant changes in law enforcement and legal procedure.

Ritchie Seeking Fifth Term

A good deal of interest is being centered on the Maryland gubernatorial race. The present governor, Albert C. Ritchie, has announced his candidacy for a fifth term. He was the first Maryland governor to succeed himself and he has constantly become more popular. Entering the Executive Mansion at Annapolis in 1919, he has not since had a close contest for the high office he holds. In the last two Dem-



© Martin

ALBERT C. RITCHIE

ocratic conventions he was one of the outstanding figures. However, it is expected that he will have a tight race in the September primaries. Mayor Howard W. Jackson of Baltimore is making extensive preparations in the attempt to win the Democratic nomination in September. He is a formidable opponent but Ritchie's followers still think that the present governor will be selected by the Democrats to run in the November election.

Roosevelt Takes Time to Play

Even though burdened with almost superhuman tasks, President Roosevelt seldom lets a day pass without participating in some sort of recreation. He takes frequent dips in the White House pool, which was donated to him some months ago by newspaper men. Then he greatly enjoys the time each day when he signs his daily mail. His secretaries gather around and everybody has a good time. Another source of entertainment for the president is "movies." These are shown to him in the White House. He particularly likes historical pictures and any picture with the navy in it. Stamp collecting and boat trips down the Potomac are other forms of diversion which keep Mr. Roosevelt in good trim.

Wiley Post to Enter Race

Wiley Post, noted for his record-breaking trips around the world, is making preparations to compete in the air race from London to Melbourne, Australia, next fall. Although the present record for this same course is approximately a week, Post earnestly believes that he can cover the distance in slightly more than two days. He expects to fly at a height of 30,000 to 35,000 feet and to attain a speed of 300 miles an hour or better.

"The rules require all contestants to land at Bagdad, Calcutta, Singapore, Darwin and Charleville," the Oklahoma aviator recently said, "but if I go in the race I don't figure to spend any more time on the ground than necessary until I'm in Melbourne."

AROUND THE WORLD

Geneva: The Council of the League of Nations met on May 14 confronted by a host of problems the most important of which are described elsewhere on this page. It was not on the Council meeting, however, that chief interest was centered, but on the session of the League's China committee scheduled to meet during the same week. This committee was preparing to consider the report on the reconstruction of China drawn up by Dr. Ludwig Rajchman, technical delegate to China. It was the work of Dr. Rajchman which had aroused the ire of Japan and which is said to have been principally responsible for the declaration of her "hands off China" policy. Dr. Rajchman advocated a large increase in China's road building program. Roads help to unify a country and Japan will doubtless object. The Japanese are especially anxious that the Council withdraw Dr. Rajchman, whom they hold to be hostile to them. The British are said to favor yielding on this point, merely as a tactical move and not as a concession. It is difficult to see, however, how the retiring of Dr. Rajchman can be considered as anything but a victory for Japan's policy with regard to China.

* * *

France: The Fascists and Fascist sympathizers had their day in France on May 13. Taking advantage of Joan of Arc Day, 60,000 nationalists paraded the streets of Paris in a manner which reminded spectators of Hitler's storm troops. All the important right wing groups were represented—the war veterans by the Cross of Fire, the royalists by the Action Française (French Action), and there were other organizations such as the Solidarité Française (French Solidarity) and the Jeunesse Patriote (Patriotic Youth). These reactionary societies are far from united on their programs. The Action Française, for example, is militantly royalist and is not inclined to look with sympathy on a Fascist dictatorship. But what is important is that they all joined together in the most impressive demonstration held in France for a long time. And, moreover, there were considerable cheers for Colonel Robert de la Rocque, leader of the Cross of Fire, who is looked upon as a possible Fascist leader.

¶ The persuasive voice of Edouard Herriot, Radical-Socialist leader, prevented an important division in the ranks of the Radical-Socialist party last week. As previously reported there was dissension among the Radical-Socialists, the strongest party in France, over the fact that Herriot had joined the Doumergue cabinet and had swung his party's support behind the government, which is looked upon by many Radicals as having Fascist tendencies. A movement got under way to force Herriot to resign under threat that the party would be disrupted if he did not do so. But Herriot stood his ground. His eloquence and shrewdness won over all but a handful of the 1,200 delegates to the party convention. The Radical-Socialists will continue to support Doumergue.

* * *

Hungary: A surprising twist in European affairs developed on May 12, just two days before the meeting of the League of Nations Council. Hungary came forward with a complaint against Yugoslavia and asked the Council to conduct an inquiry. The complaint involved the usual border incidents such as allegedly unwarranted killings by guards and abusive interferences with trade. The Hungarians charged that their protests had been ignored by Yugoslavia and said that they consequently felt it necessary to bring the matter to the attention of the League.

Yugoslav delegates in Geneva expressed bewilderment and indignation over the Hungarian move. They retorted that no complaints had been made and that there have been no recent incidents of the kind mentioned by Hungary. They see Italy at the bottom of Hungary's appeal to the League. The Italians are the greatest enemies of Yugoslavia, and the mere fact that recently a closer relationship was established between Italy and Hungary is enough to make Yugoslavia believe that Italy is trying to embarrass her. The Yugoslav foreign minister recently accused Italy of "harboring, supporting and training revolutionists whose aim is to commit acts of violence against the Yugoslav state."

* * *

Saar: The League Council will probably set a date for the Saar plebiscite at its session this month. This district which has become the number one danger zone in Europe is causing League officials no end of worry. The Saar, important for its mining resources, was taken from Germany after the war and placed under special League jurisdiction. It was provided, however that the inhabitants should have the opportunity of deciding in 1935 whether they wish to return to Germany, be transferred to France, or remain under the League. As the time for the plebiscite approaches bitterness increases between France and Germany. Dr. Goebbels recently made a speech close to the Saar border urging the Saarois to vote for return to Germany and making all sorts of promises of advantages under Hitler.

At the same time, Geoffrey G. Knox, League of Nations high commissioner in the Saar, sent a letter to the League advising it of the possibility of a sudden attack to overthrow the present League government in the Saar. Mr. Knox said that these threats were traceable sometimes to one faction and sometimes to another. He made no recommendations and only asked the Council to give the problem attention.

* * *

Germany: Dr. Paul Joseph Goebbels, minister of propaganda, and Richard Walther Darré, minister of agriculture, are spreading anew the gospel of anti-Semitism in Germany. Vitriolic attacks against the Jews and other enemies of Hitlerism—Catholic and Protestant independents, intellectuals, Junkers, profiteers, Communists—were launched last week. An obvi-

ous attempt was made to restore all the venom and hate of Germany's first months under Hitler. But there are signs that the populace is less willing to be swept along the Hitler tide. Otto D. Tolischus, Berlin correspondent of the *New York Times*, reports that people are asking, "What does it all mean? What is back of it? What new troubles are to be disguised by it?" The *New York Herald-Tribune* suggests an answer:

The latest tirades against the "impudence" of Germany's terrorized Jewish population, delivered by Dr. Joseph Paul Goebbels in both speech and print, look suspiciously like a cowardly and amateurish attempt to divert the attention of the Nazi rank and file from the Hitler régime's failure to bring in the economic Elysium according to schedule. In his public address at the Berlin Sport Palace on Friday night, Dr. Goebbels did, indeed, put his denunciation of Jewish "impudence and arrogance" in close juxtaposition to his apology for the persistence of diminishing trade, low wages, unemployment and poverty under the Third Reich. He all but confessed in that grouping of ideas that his purpose in focusing the Nazi mob's attention on the reluctance of German Jewish "guests" to abide within four walls of their houses and starve was to forestall a threatened popular scrutiny of the Hitler régime's economic policy.

The particular feature of this policy which, as we know, the Hitlerites would have the German masses forget in a fresh outburst of anti-Jewish hysteria is the complete absence from it of the socialistic program that figured so large in the party's advance propaganda. For this there has been substituted a more abject surrender of the economic machinery of the state into the hands of the great industrialists and merchants (including the unmolested Jewish capitalists) than the republic ever contemplated and the faithful are beginning to mutter about it. They have the cures but not the bread.

¶ Germany expects to have all the airplanes she needs by 1936. It is no secret that she is importing planes and engines as rapidly as she can pay for them. Engines are purchased principally in Great Britain and in the United States. Department of Commerce figures, recently made public, show that during the month of January, 1933, just before Hitler became chancellor, German imports of airplane engines totalled \$1,600, and purchases of parts amounted to \$10,943. In January, 1934, one year later, purchases of engines reached the sum of \$189,488. In February the figure was \$184,942, and in March, \$249,480. In all, Germany has purchased 112 airplane engines in the United States during the first three months of this year. The Germans will not admit, of course, that these engines are to be used on military and not commercial planes. But it is

obvious that they are bought for military purposes. Among the American firms doing business with Germany are Pratt & Whitney of East Hartford, Connecticut, United Aircraft, Curtiss-Wright, Sperry Corporation and the Douglas Aircraft Company. Of course there is nothing illegal about sales of American airplane engines to Germany. It is the usual practice for a government to purchase armaments wherever it wishes.

* * *

U.S.S.R.: The Soviet government is taking pains to let the world know that Jews are not persecuted under a Commun-



—From CHRISTIAN SCIENCE MONITOR
BIRO-BIDJAN, WHERE AN AUTONOMOUS JEWISH DISTRICT HAS BEEN ESTABLISHED BY THE U.S.S.R.

nist régime as they are under the Fascist dictatorships of Europe. It has granted rights of autonomy to the 8,000 Jews living in Biro-Bidjan province, and plans to settle 12,000 more in that district. Eventually a Jewish autonomous republic within the Soviet Union will be established. Biro-Bidjan lies in Eastern Siberia just north of Manchuria. It is rich in natural resources but is largely wilderness. The settlement of this region is in harmony with the Soviet plan to push the development of Siberia in order to counteract the Japanese threat in the Far East. It is announced that while no particular effort will be made to attract foreign Jews to Biro-Bidjan, they will be made welcome if they decide to settle there.

* * *

Chaco: Denouncing the Chaco war as "senseless," and as "inhuman and criminal" the League of Nations commission appointed to investigate that conflict made its report last week. It did not charge either Paraguay or Bolivia with responsibility, but rather placed the blame for continuation of the war on other countries which have supplied the belligerents with arms and munitions. It calls upon these countries, particularly the Americas, to stop these shipments and put an end to the conflict. The report implies that foreign capital, interested in the tannin and oil resources of the Chaco, is responsible for the war. No specific accusations are made but the finger seems to point toward Argentina, Chile and to some extent the United States.



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COTTON GOODS BEING LOADED INTO WAREHOUSES IN ENGLAND
One of Britain's industries which has been severely hurt by Japanese competition. The developments of the Anglo-Japanese trade war are being watched with interest.

The AMERICAN OBSERVER

A Weekly Review of Social Thought and Action



Published weekly throughout the year (except two issues in December) by the CIVIC EDUCATION SERVICE, 744 Jackson Place, Washington, D. C.

Subscription price, single copy, \$2 a calendar year. In clubs for class use, \$1 per school year or 50 cents per semester.

Entered as second-class matter Sept. 15, 1931, at the Post Office at Washington, D. C., under the Act of March 3, 1879.

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VOL. III

MONDAY, MAY 21, 1934

NO. 36

WHERE THE GUILT LIES

When things go wrong, it is natural that we should undertake to fasten the guilt upon some individual and punish him. When, for example, thousands of people find themselves impoverished by the breakdown of the business empire of Samuel Insull, they clamor for vengeance and take delight when the old man is placed behind the bars. That is all very well so far as it goes. The danger lies in the probability that people will be satisfied with the punishment of one man and that they will allow the continuation of business practices similar to those by which Insull fleeced them. After all, it is these business practices which are at fault. We need to do more than punish an individual. We need to correct and purify a business system which in times of prosperity stands for such practices and makes heroes of the Insulls. Insull ruled Chicago a few years ago, and he would be ruling it yet if it had not been for the depression. The people stood for it then, and unless they analyze the situation and see where the guilt really lies, they will be standing for such things in the future.

William Allen White, editor of the Emporia *Gazette*, in one of his characteristically forceful editorials, points out the true lesson of the Insull collapse:

Did you see that horrible picture in the papers yesterday of Insull facing the jail door? It was cruel and wicked—wicked in that the public should gloat over agony depicted upon an old man's face. The Insull guilt is not all his. We who gloat at his downfall are in a way as guilty as he.

They are putting Sam Insull in jail and holding him under \$200,000 bond, for the crimes of society. We are all partly guilty. Everyone knew what Sam Insull and his kind were doing ten years ago. Everyone knew the potentialities for swindling and loss by fraud which hung over tens of thousands of investors in not only Sam Insull's company but in the companies of scores of others of his sort. He and his kind were greedy, but thought they were greedy within the law. They were powerful, but thought they were powerful enough to make their promises good. They were swindlers only because we were suckers, and we were suckers only because our laws were lenient to swindlers who were luring suckers.

Wise men everywhere, ten years ago, were pointing out the dangers of the Insull game wherever it was played, just as they are pointing out today the dangers of the same game, which has slowed down since 1929. Wise men are asking today that we put a stop to the potential swindling of the Insull game by making it a crime. Ten years ago, asking the same thing, these wise men were greeted with sneers: "Do you want 'hamstring business?'" quoth the swindlers and their associates and sympathizers. Today they are saying the same thing, and unless we do hamstring the kind of business that the Insulls were engaging in, they and their kind will still fatten, and fraud will eat up the widow's fortune and take the bread out of the orphan's mouth.

And all we can do about it is to put the next swindler in jail after he has wrecked his associates. We, the people of the United States, who have slept on our rights, who have bowed down to Insull and his golden calf and accepted greed as a major virtue, we who have allowed him to do these evil things in the name of business, we should be in jail with this

broken old man who thought he was honest because his greed knew no law that his sense of power did not encourage him to break.

Insull's shame is America's shame.

A Challenge to Republicans

As the time for choosing new leadership in the Republican National Committee approaches, the New York *Herald-Tribune*, staunch defender of the Republican party, asks for a liberal, enlightened choice rather than a return to the "Old Guard."

Through the resignation of Everett Sanders, a national duty of the first importance falls upon the Republican National Committee.

If a vigorous, progressive man is chosen chairman, a strong opposition party may be built up that can fight effectively to keep the New Deal from dangerous extremes. To keep America American, in short.

If a reactionary chairman of the old school is chosen, the party can scarcely fail to sink back into petty faultfinding, incapable of performing the high public service that is its urgent duty.

We have no illusions about national committeemen. It is their business to be practical politicians. What we are urging is, in our judgment, as sound politics as it is good Americanism.

It is impossible to create an effective third party in this country. But it is always possible to modify alignments, to secure new recruits. Such a process of shifting is plainly taking place now. The advocates of centralization and regimentation, the manipulators of the dollar, are in control of the Democratic party. What Thomas Jefferson or Grover Cleveland would say of the New Deal it is not difficult to guess. Senator Carter Glass has already said a-plenty.

If the Republican party is to meet its duty and organize faith in the American system into an effective political force it must find new leadership. Already the names of some of the old guard are being brought forward for the chairmanship. Senator James Watson, for example. We can only say that, in our judgment, if Senator Watson is chosen the party might as well shut up shop. The same judgment would apply to any other member of this group that has fallen to the rear.

Everywhere new blood must be sought out, young and alert leaders placed in charge. What is good in the New Deal must be preserved. The problems that remain must be faced courageously, without partisanship, with a clear perception of the post-war situation at home and abroad.

An International Problem

Speaking of foreign trade and the tariff powers asked by President Roosevelt, *Business Week* declares as follows in an editorial:

Recovery is an international problem. Events of the past year have developed with ever-increasing clarity the importance of foreign trade, and have emphasized even more sharply just how difficult it is going to be for us to retain our relative share, let alone increase it. The impression exists that in seeking powers to make special trade agreements by manipulation of tariffs, the administration is imbued with the idea that it can greatly stimulate our exports. Some of the supporters of the reciprocal tariff bill have talked in that strain. Naturally, the realists have met them with skepticism. But the truth is that we face a bitter fight to retain overseas trade that we now hold...

The essence of such power is the ability to act quickly. That is why all the amendments calling for advisory boards and public hearings and the like are really so crippling while seeming so innocent. It is to be noted that leaders of both parties are not alarmed over the proposed broadening of presidential authority for the period of the emergency; indeed, no more cogent plea for the measure has been made than that offered by President Hoover's secretary of state, Mr. Stimson.

As the executive vice-president of the American Manufacturers Export Association pointed out to a Senate committee, the business of the United States is not like a farm, on which one or two fields can be allowed to lie fallow without reducing the productivity of the others. It is rather a living body, in which trade is a network of interlaced veins and arteries. Cut it anywhere, and it bleeds. Amputate ten per cent of a living body, and the whole is drained of its health.

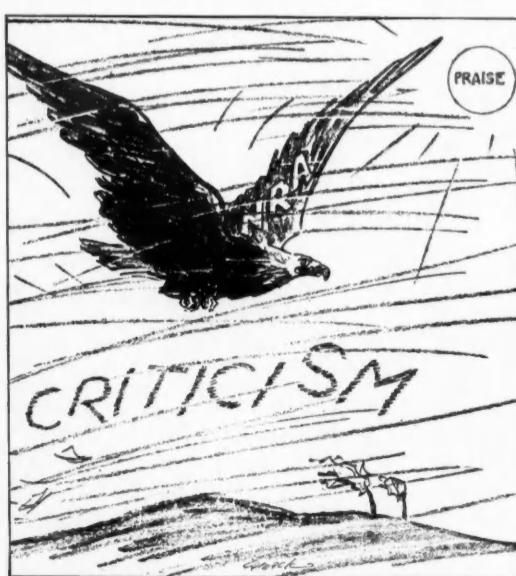
Foreign trade is barter; it always has been and always will be. If we must export—and we must if America is to be again what it has been—we must import. The "Buy American" movement has met a well-deserved death. May it never be resurrected.

Nature Does Some Planning

The May drought in the wheat belt has created a puzzling and possibly serious situation for agriculture and the relief administration. (See page 8.) The following editorial from the *Christian Science Monitor* explains further what has happened and what may result from the sudden change in plans for the wheat crop:

Those who arrogate to themselves the job of "controlling" agriculture are now face to face with a cosmic rebuke in the shape of a severe drought in the American wheat belt. The news has been hidden away in the financial pages for several days. Now the government has been compelled to take notice of it, and the Department of Agriculture, in its latest report, reduces the April 1 estimate of the winter wheat crop by no less than 40,000,000 bushels, and says that the spring wheat crop may be damaged to the extent of 60,000,000 bushels. This total decline of 100,000,000 bushels is equivalent to around twelve per cent of a normal year's crop.

Such a drop in production might be serious in more normal times. The United States normally consumes 700,000,000 bushels. With the 1934 crop now estimated at 635,000,000 bushels, a shortage seems to be indicated. But that would take into account only current production and normal consumption. In point of fact, the United States still has a heavy carryover, estimated at 270,000,000 bushels, so there is ample and to spare. Of course the estimate of the year's crop is still highly tentative. If the drought continues, a shortage might develop. The chances, according to the AAA, are "one in twenty," but, even in that unlikely event, there would be no cause for alarm, as other regions, which also have their carryovers but no drought, would be glad, indeed, to market their surplus in the United States.



HEAD WINDS
—Carmack in CHRISTIAN SCIENCE MONITOR



ARABIAN NIGHTS
—Elderman in Washington Post

The possibility of a smaller crop than is even now envisaged must be ever present as long as the drought lasts. Deficiency of moisture at this time of the year is catastrophic. It is by far the greatest single factor which causes loss from normal crop yields. At this time winter wheat is in the last growing stage preparatory to harvest. During the winter, when the plant is dormant, and in early spring, when the air is cool and the plant small, very little moisture is needed to maintain vitality. But moisture is absolutely essential when, as at present, the weather is warm and growth is in process of its last stimulation. Moisture is even more necessary in developing early vitality in the spring seeds. A good deal of planting has already taken place, particularly in Minnesota, North and South Dakota, but what the drought has not impoverished, the dust storms blowing across to Iowa have scattered. Prospects are thus dependent upon rain this month, and sufficient damage has been done already to be responsible for the description of the present drought as the worst since 1894.

Could any mortal have foreseen such an event a month ago? None at all. In fact, the United States was talking about its embarrassment of wheat riches, and, in consequence, the price was falling. Secretary Henry A. Wallace was anticipating that the price would soon be falling another twenty cents until it came down to the world level. Then, he thought, the American surplus could be channeled to foreign markets, and the farmer could have the processing tax increased so as to make up for the lower price. In less than a month the entire picture has been changed. As a result of the drought the price has rallied, seeking to break through the ceiling imposed by the government on daily wheat price variations in the Chicago "pit."

The moral is that in face of such imponderables the work of agricultural planners is puny. Now yield is responding to the mischances of the weather without regard to either farmers' hopes or AAA blue prints. If the drought keeps up, the government agency needed in the farm belt will be the FERA, not the AAA.

The new Burlington streamline train has made 104 miles an hour and we now face the problem of what's to be done with the additional leisure at the end of the trip.

—New York Times

Many people have wondered why Admiral Byrd left his nice playmates to spent the Antarctic winter in solitude. Our theory is that he is reading "Anthony Adverse."

—The New Yorker

Will some one please tell us why a watch always stops when an after dinner speaker lays it on the table?

—Washington Post

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Highlights of the School Year

DOMESTIC

SEPTEMBER

September 2. Secretary of Navy Swanson signs contract for seventeen new warships. September 5. President Roosevelt returns from yachting trip to face problems raised by NRA coal code. September 6. Henry Ford refuses to sign automobile code. September 15. Processing taxes levied on tobacco, effective October 1. September 18. RFC grants Farm Credit Administration \$150,000,000 to refinance farm mortgages. September 19. Roosevelt signs soft coal code.

OCTOBER

October 2. President speaks to American Legion convention at Chicago, and stands firm on his economy pension program. October 11. United States Treasury announces conversion plan for \$1,875,000,000 in Fourth Liberty Loan bonds. October 12. First subsistence homesteads started in West Virginia. October 17. Roosevelt signs executive order providing fine and imprisonment for false operation under an NRA code or false display of the Blue Eagle. October 20. National Farmer's Holiday Association calls mid-west farm strike, "until farm prices bring cost of production." October 22. President addresses nation by radio to explain new gold purchase plan and his goal of a managed currency. October 23. Roosevelt signs retail code, under which sales at a loss are barred. October 28. Gold purchase plan expanded to include the world market as well as newly mined domestic gold.

NOVEMBER

November 6. Strikers in "captive" soft coal mines, owned by steel companies, go back to work after settlement; farm strike in Iowa and Wisconsin reaches its greatest strength. November 7. Fiorello LaGuardia elected mayor of New York City as Fusion ticket defeats Tammany. November 8. Utah, Ohio, and Pennsylvania vote for prohibition repeal, bringing total number of states to the required thirty-six. November 9. Roosevelt bars discussion of economic issues at Pan-American Conference. November 15. Secretary of the Treasury Woodin takes indefinite leave of absence because of ill health; Undersecretary Dean Acheson resigns and Henry Morgenthau, Jr., becomes acting secretary. Roosevelt and Harry Hopkins, relief administrator, launch Civil Works Administration plan to create 4,000,000 jobs. November 21. Prof. O. M. W. Sprague resigns as special advisor in the Treasury Department because of disagreement with the president's monetary policies. November 24. Alfred E. Smith issues statement attacking the "balance of power." November 26. Lynch mob at San Jose, California, raids jail and hangs two kidnappers and murderers of Brooke Hart. November 27. Governor Ralph of California praises lynchers and offers to release other prisoners to them.

DECEMBER

December 5. State convention in Utah ratifies prohibition repeal, and the twenty-first amendment replaces the eighteenth in the Constitution. December 6. Roosevelt announces creation of the National Emergency Council under Frank Walker to coordinate recovery agencies. December 7. New issue of short-term securities amounting to \$950,000,000 oversubscribed in one day at the Treasury. December 11. George Peek resigns as AAA administrator and becomes head of Import-Export bank organization to aid foreign trade. December 14. Annual report of Department of Agriculture, issued by Secretary Wallace, says United States must modify tariff policy to permit foreign trade, or make drastic reduction of land under cultivation. December 20. President extends blanket code for industry for four months after its scheduled expiration date, December 31. December 21. Roosevelt ratifies silver agreement, concluded at the World Economic Conference, and orders purchase of domestic silver. December 28. Morgenthau issues order for delivery of all privately held gold to the Treasury.

JANUARY

January 1. Woodin resigns as secretary of the Treasury and Morgenthau succeeds him. January 3. Seventy-third Congress reassembles for the regular session; president outlines New Deal objectives, and says the program is worth making permanent. January 4. Roosevelt transmits staggering ten billion dollar budget message to Congress. January 8. Ambassador Troyanovsky presents his credentials to the president as the first Soviet ambassador to the United States. January 12. Governor General Gore of Puerto Rico resigns, and Major Winship is named to succeed him. January 15. President Roosevelt asks Congress to pass new gold bill, stabilizing the dollar between fifty and sixty cents and creating a stabilization fund. January 20. House of Representatives passes gold bill, 360 votes to 40. January 22. Gradual suspension of the CWA, beginning February 15, is announced by Roosevelt. January 27. Senate passes gold bill by vote of 66 to 23. January 31. President Roosevelt signs proclamation fixing weight of the gold dollar at 59.06 per cent of its former weight.

FEBRUARY

February 2. Senate passes Johnson bill, forbidding extension of credit to foreign nations in default on debts to the United States. February 9. All domestic air mail contracts are cancelled, after charges that they were secured through fraud and collusion, and President Roosevelt asks the army air corps to carry mail from February 15 until a new system can be devised. February 26. Conference of all government officials concerned with foreign trade questions meets with president to decide upon methods for trade revival. February 27. General Johnson opens "field days" of criticism for NRA in Washington.

MARCH

March 2. Two messages from president to Congress ask (1) enactment of a bill giving the executive power to raise and lower present tariffs as much as fifty per cent, and to make reciprocal tariff agreements with individual foreign nations, and (2) passage of a new Philippine independence law. March 3. Dillinger, Indiana gangster, escapes Crown Point jail with the aid of a wooden pistol. March 5. NRA code authorities open convention in Washington, to appraise the codes and their results. March 10. President Roosevelt orders drastic curtailment of the air mail services performed by the army air corps, because of several fatal accidents which occurred. March 14. Senate casts forty-six votes in favor of St. Lawrence Waterway treaty and forty-two against. A two-thirds majority is required for passage, so the treaty is defeated. March 24. President signs the Philippine independence bill. March 25. Roosevelt secures agreement of automobile workers and manufacturers on labor dispute, after long negotiations. March 27. President signs Vinson navy bill, which authorizes construction of a treaty strength navy. House of Representatives overrides Roosevelt's veto of the Independent Offices Appropriation bill, shortly after receiving the veto message, by a vote of 310 to 72. March 28. Senate overrides president's veto, by vote of 63 to 27, thereby restoring a portion of the pay cut of government employees, and placing cases of presumptive disability back on veterans' rolls.

APRIL

April 10. Dr. William Wirt of Gary testifies about brain trust "plot" before House committee. April 19. White House announces new \$1,500,000,000 plan for repairs and new construction of homes. April 26. Railroad managers and employees agree on wage restoration, ending long deadlock. April 28. Senate passes McKellar-Black air mail bill, governing awards of new permanent contracts to private companies.

MAY

May 1. Philippine legislature votes unanimously to accept new Tydings-McDuffie independence law. May 2. H. I. Harriman, president of United States Chamber of Commerce, approves NRA and AAA in keynote speech opening annual convention. May 3. Former Secretary Woodin dies in New York City hospital. May 4. House passes stock exchange regulation bill with minor amendments. May 8. Samuel Insull arrives in Chicago from Turkey under arrest. May 9. Roosevelt signs sugar bill which establishes quotas for domestic production and imports.

INTERNATIONAL

SEPTEMBER

September 5. Cuban radicals oust President de Cespedes and take over government. September 9. Alejandro Lerroux becomes premier of Spain as conservative trend sets in with resignation of socialistically inclined Azana cabinet. September 10. Dr. Ramon Grau San Martin is sworn in as president of Cuba by radicals and students. September 20. Chancellor Dollfuss of Austria establishes dictatorship. September 25. Fourteenth annual session of the League of Nations Assembly meets in Geneva.

OCTOBER

October 2. Argentina, Austria and Denmark are elected to temporary seats on the League Council. October 3. Chancellor Dollfuss of Austria is wounded by would-be assassin. Spanish Cortes (parliament) defeats Lerroux government. October 8. Spanish Cortes is dissolved and Martinez Barrios chosen premier pending new elections. October 14. Germany withdraws from disarmament conference and League of Nations. October 16. Disarmament conference adjourns to October 25. October 20. President Roosevelt and Mikhail L. Kalinin, president of the Russian Central Executive Committee, exchange messages preliminary to the opening of diplomatic negotiations in Washington. October 23. Premier Daladier and cabinet resign in France when Chamber refuses to vote fiscal program to balance budget. October 24. Albert Sarraut becomes new French premier. October 25. Disarmament conference postponed until December 4.

NOVEMBER

November 7. Maxim Litvinoff, Soviet commissar for foreign affairs, arrives in United States to confer with President Roosevelt. November 12. German people vote overwhelming support of Chancellor Hitler's foreign policies. November 19. Revolt against Nazi attempts to dominate Church spreads among Protestant pastors. Chinese province of Fukien revolts against Nanking government in bid for independence. November 17. The United States recognizes Soviet Russia. November 23. Cabinet of Premier Albert Sarraut overthrown in France as Chamber refuses to accept fiscal reform. Disarmament conference postponed until January 15. November 27. Camille Chautemps, Radical-Socialist, forms cabinet in France.

DECEMBER

December 3. Seventh Pan-American Conference opens in Montevideo. December 8. President Eamon de Valera outlaws Blue Shirts in Ireland. December 5. Official election figures in Spain show that Cortes will have 207 conservatives, 167 moderates and 39 radicals, thus ratifying the swing away from socialist reforms. December 15. Five nations—France, Belgium, Poland, Hungary and Estonia—again default on debt to United States. Five others—Great Britain, Italy, Czechoslovakia, Latvia and Lithuania—make token payments. Finland alone pays in full. December 17. Alejandro Lerroux forms new conservative government in Spain. December 18. Paraguay and Bolivia agree to truce in Chaco war. December 19. Secretary of State Hull pledges Roosevelt administration to policy of nonintervention in Latin America at Montevideo conference. December 26. Montevideo conference adjourns.

JANUARY

January 4. Serious political developments forecast in France as Stavisky scandal becomes known. January 7. Turkish cabinet approves five-year plan to industrialize Turkey, 4,000 German Protestant pastors form League of Opposition to resist Nazi interference in church affairs. January 8. Hostilities between Paraguay and Bolivia renewed as truce expires without settlement of dispute. January 15. Grau San Martin resigns in Cuba and is replaced by Dr. Carlos Hevia, minister of agriculture in his cabinet. January 17. Colonel Carlos Menditea becomes president of Cuba. January 18. Italian parliament votes corporate state laws designed ultimately to do away with parliamentarianism in Italy. January 21. Sadao Araki, war minister and dominant political figure in Japan, resigns from office, giving ill health as reason. He is succeeded by General Senjuro Hayashi. January 26. Germany and Poland sign ten-year nonaggression pact. January 27. Premier Camille Chautemps and his cabinet resign in France as nation is shaken by Stavisky scandal. January 28. Rebellion in Fukien, China, ends as troops of Nineteenth Route Army surrender. January 29. Edouard Daladier undertakes to form cabinet in France. January 30. Adolf Hitler celebrates first anniversary as chancellor of Germany. Convenes Reichstag which passes a bill providing sweeping constitutional reforms empowering Hitler to rewrite the German constitution and abolish the traditional states in the country. January 31. Great Britain proposes new disarmament plan in effort to bridge gap between France and Germany. Suggests limited rearmament for Germany contingent upon return to League and additional security for France.

FEBRUARY

February 6. Severe riots break out in France. Police fire on demonstrators and spectators crowding around Chamber of Deputies to protest Daladier cabinet. February 7. Premier Daladier resigns. February 8. Former President Gaston Doumergue of France takes premiership to save country from civil war. February 12. French Socialists, Communists and workers join in twenty-four hour strike in protest against "Fascist reaction." Civil strife breaks out in Austria as Fascist Heimwehr joins with government to crush Socialists. February 14. Hitler decree abolishes Reichsrat, upper house of parliament. February 25. 1,000,000 functionaries of National Socialist party in Germany take oath of "unswerving loyalty" to their leader, Adolf Hitler.

MARCH

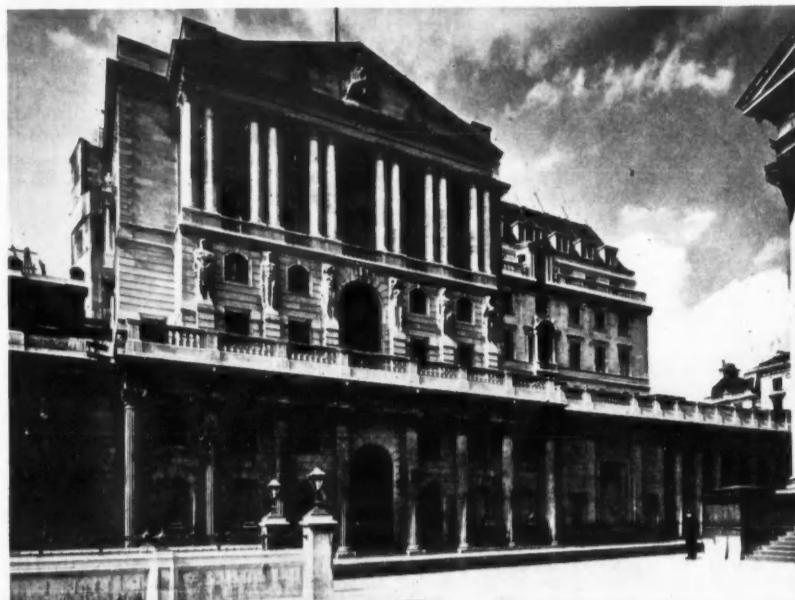
March 1. Henry Pu Yi is made emperor of Manchukuo, becoming known as Kang Teh. March 13. Dr. Kurt Schmitt, minister of economics in Germany, announces plan for organization of all branches of economic life. The economy of the country is to be divided into twelve branches each with a "leader" over it. March 17. Italy, Austria and Hungary sign pacts to promote political cooperation and trade. March 19. France rejects British arms plan. March 24. Premier Doumergue of France appeals to nation to avoid civil war, which, he says, would bring foreign invasion.

APRIL

April 9. Plot to kill King Carol foiled in Rumania. April 10. Bureau of disarmament conference meets and decides to convene full session for March 23. Later postponed to May 29. April 17. Japanese foreign office spokesman declares "hands off China" policy. April 18. In stiff note to Great Britain the French government declares that German rearmament makes it impossible to continue discussions looking to conclusion of arms limitation agreement. April 23. Poland assures French Foreign Minister Louis Barthou that Franco-Polish alliance is as strong as ever. April 25. Lerroux cabinet resigns in Spain because President Zamora did not approve in full law declaring amnesty for political prisoners and exiles. Ricardo Samper Ibanez, minister of industry and commerce in the Lerroux cabinet, assumes premiership. April 28. King Victor Emmanuel announces that Italy will increase its armed forces. April 30. New Austrian constitution goes into effect. Will establish corporative state based on Italian model. The United States tells Japan that she cannot override treaties with respect to China.

MAY

May 1. New labor code, giving final death blow to unionism, goes into effect in Germany. May 3. Germany renews campaign to win Austria to National-Socialism. Germany and Yugoslavia sign trade treaty creating closer ties between the two countries. May 5. Russia and Poland extend nonaggression pact to 1945. May 6. Nazis inaugurate campaign to assure victory in Saar plebiscite in 1935. May 7. Great Britain opens trade war on Japan.



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THE BANK OF ENGLAND

Semiannual War Debt Crisis Comes to Fore

(Continued from page 1, column 1)

had no means by which they could pay our government when the debt payments came due. Several of the nations have ceased payments altogether; others have paid only in part. Now there is a threat of a general default. It is well therefore that we should examine into the facts of the case in order that the problem of war debt payments may be faced intelligently.

Paying with Goods

It is a fact, of course, that in reality these debtor nations did not borrow money. They did not borrow gold. When the debts were contracted, gold did not pass from the United States to Europe. What these governments really borrowed was material. They borrowed goods, and goods passed across the Atlantic from our shores to the shores of Europe. Ordinarily, we Americans could not have shipped so much material to Europe. The Europeans would not have accepted it. The dumping of American goods upon them would have interfered with their own industry. It would have glutted their markets and would have furnished destructive competition to their farmers and to their factories, but they had an unusual demand for goods; one which came as the result of the war. Hence it was possible for the goods to be sent over.

Now, how is this debt to be paid back? Conceivably it might be paid back with goods. Great Britain, France, Italy, Belgium and the other countries, might send us goods to pay for the goods they borrowed. The trouble is that we do not want the goods. Suppose billions of bushels of wheat, for example, should be sent to America. We could not use the wheat. Our farmers are already raising more than they can sell. The importation of wheat at this time would be ruinous to our markets. The importation of other kinds of goods would hurt our factories. If the conditions under which the loans were made in the first place should be reversed—if America should be engaged in war—and if as a result of the war activities, we needed more food and clothing and war supplies than we could produce, then the European nations might stimulate their own production and send us the goods we needed. In that way the debts might be cancelled. It is very difficult to see in what other way they can be.

Of course, there is no thought that the debts shall all be paid back at once. As we have said, about sixty years were given for the repayment. If each year we were to buy from the European nations somewhat more than we sell to them, the debts

might be paid. This would really be a repayment in goods. If, for example, Americans sold more goods to Englishmen than they imported from England, there would at the end of the year be a balance due to the English—a balance which ordinarily would be settled by the shipment of gold from America to England. That gold, representing the difference between the amount Americans sold to the English and the amount they bought from the English, could be left in America as a payment on the debts.

Difficulty of Payment

But the American people are not taking more goods from the debtor nations than they are sending to these countries. As a people, we are trying to sell these foreigners all that we can, but we are refusing to take goods from them. We are putting up tariff walls which make it very difficult for foreigners to sell us anything. Our importations are declining. The credit balances are in our favor. These foreign nations, then, do not have at the end of the year balances due from the United States. The balances are on the other side. In short, we are refusing to be paid back in goods, even on the installment plan.

How, then, can we be paid? We may answer that we will be paid in gold. The governments agreed to pay us back in gold. Why do they not do so? The answer is that they do not have enough gold to make the payments. Most of the gold of the world is in the hands either of the United States or of France. At best, the other nations have a supply of gold on hand sufficient to serve as a reserve for their paper money. Most of them do not at this time have even that much. No nation can stand a great drain of its gold to another country. If it has a favorable trade balance, if it is selling to foreigners more than it buys, it will have a favorable balance and can build up a surplus of gold, and this surplus it can send out. But if its trade balance is not favorable, it will not have the gold to export.

Probably most of the nations owing us money could pay a little of it. They might make payments for a while, but very few people who have studied the debt problem carefully believe that these nations could continue to ship us gold for a considerable amount of time. They cannot do it unless we change our tariff policy so as to permit them to sell us large quantities of goods. We do not want to change this tariff policy because

we feel, or most of us appear to feel, that it would be hurtful to American industry to permit free competition from abroad. That is why the British, whom we call "debt defaulters," are saying that we are "credit defaulters"; that is, that we are refusing to accept the only kind of payment that is possible, namely a payment in goods.

Effect on America

Another factor in the situation calls for attention. Suppose our government received payment in gold from all the debtor nations. In that case there would be a flow of gold from other nations to our Treasury. What good would that do us? Our government could not use this gold in meeting its current expenses. It could not pay its employees in gold. It could not buy the materials to carry on the construction work under the PWA in gold. Gold is not being used as a medium of exchange. It is being used as a reserve against which paper money is issued. But the reserve is already greater than is needed. We could issue more paper money than we now have in circulation without creating a greater reserve of gold. The reason we do not issue more paper money is not that we do not have enough gold to back it up. The reason is that we cannot issue more without danger of inflation. The money which we have is not being used. It is lying idle in the banks. The banks are afraid to lend it and business men are afraid to borrow it for fear they could not pay it back. It is impossible to put money out and get it into circulation because there is little confidence in the business world and money is not being loaned or borrowed. If the Treasury should receive new supplies of gold from abroad and should print paper money in enlarged quantities, the new issues would lie unused in the banks.

Economics and Politics

Such are the general factors as they are seen by students of the debt problem. Now let us turn from the economic situation to the political situation. What are people thinking about the question of debts? It seems that the great majority of people in America are demanding a full payment. Just how the debts are to be paid they do not know, for they are too busy with their own affairs to go deeply into the economics of the transference of goods or gold between nations. They look upon the debts as they would upon private contracts. If a man borrows money, he should pay it back. The argument that the European nations cannot pay falls on deaf ears. These European nations, our debtors, are spending great sums of money on armaments, many say. Then why cannot these nations use the money now spent on armaments to pay their honest obligations?

Of course, there is an answer to that question. When the English build warships and support armies, they are paying for these things with English paper money. They are buying the materials at home and using English money to pay for them. The government collects this

money from its people, pays out the money to armament firms and these armament firms pay it out again to English people for materials, wages, etc. The government may collect from its people a great surplus of English money, but that money is not good in the United States. Before we can use it, it must be changed into dollars and the English government can secure dollars only by paying gold for them. It is quite possible, therefore, for the English government to have plenty of English money and to be able to collect that money in England and pay it out in England and yet be unable to pay out gold to a foreign government. The debt problem is chiefly a transfer problem, the problem of transferring gold from one nation to another.

The Johnson Act

Our Congress reflects the ideas of the majority of Americans, and it is Congress which fixes the terms of the debt settlement. Congress has declared that there shall be no reductions of debts and no postponements of payments. This spring it went further and passed an act designed to punish nations which do not make payments. It did this through the so-called Johnson Act—an act which takes its name from its author, Senator Johnson of California. The Johnson Act declares that if any nation fails to pay its obligations to the United States fully and promptly, it shall be in default and that under those circumstances, the foreign government and the city governments comprised within it, shall not borrow money in the United States from American citizens. If Great Britain does not pay in full on June 15, therefore, the British national government and British municipalities cannot sell their bonds in this country.

It is doubtful whether the operation of this act will seriously hurt the debtor nations. At least it will not hurt them just at present for since the depression, foreign governments and foreign municipalities have not been borrowing much money in America. This action of ours, branding the non-paying debtors as defaulters and enacting punitive legislation against them will, however, stir up much bad feeling. Eventually, it may hurt the interests of American investors seeking an outlet for their capital in other lands. It may conceivably hurt our foreign trade relations.

There are quite a few people in this

(Concluded on page 7, column 4)

FOREIGN INDEBTEDNESS TO U. S. ON JANUARY 4, 1934

The figures in this table were prepared by the Treasury Department for the Senate and represent the latest compilation:

	Total Indebtedness	Unpaid Installments
(A) Countries which have made full payment of amounts due:		
Finland	\$ 8,726,645.63	
(B) Countries which have made token payments on amounts due:		
Czechoslovakia	165,283,195.35	2,552,898.61
Great Britain	4,636,157,358.30	176,120,246.53
Greece	32,583,338.65	1,379,690.83
Italy	2,008,103,288.76	13,687,010.12
Latvia	7,312,658.38	286,462.10
Lithuania	6,544,554.23	221,169.92
Rumania	63,871,783.49	1,048,750.08
TOTAL	\$ 6,919,866,167.16	\$ 195,596,228.29
(C) Countries which have defaulted on installments due:		
Austria	23,757,934.13	34,767.23
Belgium	411,166,529.09	11,309,453.88
Estonia	17,784,695.59	989,985.29
France	3,960,772,238.30	82,308,312.22
Germany (mark converted at \$0.2382)	724,186,740.53	959,377.17
Hungary	2,051,938.61	114,628.64
Poland	222,560,466.43	12,317,829.71
Yugoslavia	61,625,000.00	525,000.00
TOTAL	\$ 5,423,905,542.68	\$ 108,559,354.14
(D) Countries which have never arranged for paying their debts to the United States:		
Armenia	20,313,416.66	20,313,416.66
Nicaragua	416,550.13	416,550.13
Russia	337,223,288.14	337,223,288.14
TOTAL	\$ 357,953,254.93	\$ 357,953,254.93
TOTAL INDEBTEDNESS	\$ 12,710,451,610.40	\$ 662,108,837.36

The Lagging Capital Goods Industry

(Concluded from page 1, column 4)

It is estimated that of the eleven or twelve million who are now unemployed, five of six million would be employed in these capital goods industries if such industries were working at their normal capacity. Another four or five million would be working in service industries, such as stores, garages and hotels, whose prosperity depends chiefly, or at least largely, on the prosperity of the capital goods industries. It is estimated that fewer than a million of those who are unemployed would be taken up by the consumer goods industries even if these industries were running at normal capacity. It is clear, then, that our failure thus far to get back to normal conditions results from the failure of the capital goods industries to get back on their feet. There has been very little private construction work. The construction industry has practically collapsed. The railroads are not buying new equipment. The factories are not expanding. Corporations which ordinarily finance new enterprises, either by issuing new stock or by selling bonds, are now doing neither.

Business Not Expanding

The extent to which expansions of business enterprises have dried up is indicated by the figures of new capital investment. In 1929, American corporations raised \$9,400,000,000. This included their loans for new operations and also the loans they made to pay back old obligations, or in other words, their refunding operations. In 1933, they raised but \$380,000,000. Of this \$380,000,000 only \$161,000,000 went for new borrowing. The rest was used to pay back old loans. Half of the \$161,000,000 was raised by the liquor industry. Only about \$80,000,000, according to the National Industrial Conference Board "was available for the extension of industrial and commercial enterprise in all other fields of activity." This was not much more than one per cent of all that was raised for such purposes in 1929.

Unless the capital goods industries revive, we cannot hope for a prosperous America. The American people have never found employment merely in making goods for their immediate needs. Part of them have been employed in that way, but the rest have found work in the making of new plants and equipment. We have been prosperous because we have been a growing nation, not only making things to use at once, but expanding our enterprises. If we are to get back to prosperity again, we must find a demand for new plants, new buildings, new machinery, new equipment.

Explanations

Why have these capital goods industries lagged? If we knew the answer, we would be closer to a solution of the problem of the depression. An answer sometimes given is that labor-saving machinery has been introduced so rapidly that the factories of the nation do not need enlarged plants in order to produce all that the people can consume. It is pointed out that the increase in employment last summer was not anything like as great as the increase in production. It appeared that more was being produced per workman than had been the case. The technocrats believe, of course, that we are approaching a time when there will be wholesale unemployment because machinery will do the work which heretofore has been done by human labor. It does not seem, however, that the increasing use of machinery explains the lag in the capital goods industries. Even though it may be that because of new inventions machines might take the place of men, it does not seem probable that much machinery of this kind has been installed during the depression. The technocratic explanation of the lag in the capital goods industries seems, therefore, somewhat overdrawn. As a matter of fact, there is plenty of evidence to the effect that the railroads need new equipment, and that many factories need enlargement and modernization. Certainly there is need for new housing.

It may be that the failure of business men to enlarge their enterprises comes largely from a lack of confidence. Those who produce for immediate needs are naturally willing and anxious to produce to capacity whenever demand appears, but business men, realizing that in times like this the future is problematical, may hesitate to borrow money and spend it in the enlargement of their plants or in the modernization of their equipment. They may think it more prudent to get along

clarified in the statement is untrue or if any pertinent fact is omitted; if, in other words, the statement is false in any material way, the person who purchases the stock can take action against any director of the issuing corporation or the bank underwriting it. An investor may buy a number of shares of a new issue of stock. The stock then may decline in value. Later the investor discovers that some statement made in the prospectus which accompanied the first offering of the stock was false. He can then require any director of the corporation or the bank to take the stock off his hands, giving him back what he paid for it. That, in effect, is what happened, for he

greatly the liability of the directors who issue the stock. If a false statement slips in at the time the stock is issued, their liability is limited by this amendment. If the amendment is accepted by the House of Representatives, it should encourage corporations to issue stock—to secure money with which to expand.

The government is also entering upon a huge building program. The PWA has been in operation for a long time, but it has taken months for the actual work of construction to get started. It will be at its height during the coming summer, and this government program will create a heavy demand for building materials. The government is also preparing to establish banks which will guarantee loans made to business enterprises for the purpose of expansion. Last week President Roosevelt presented a housing program to Congress. It provides that the government shall guarantee loans for home construction and improvement. This should stimulate the building industry.

This governmental encouragement will no doubt be helpful. If along with it there should come the general revival of confidence, so that business men will dare to borrow and so that banks will dare to lend, the capital goods industries may join the consumer goods industries in an upward movement which will establish us firmly on the road to recovery.

WAR DEBT CRISIS

(Concluded from page 6)

country, though they are in a minority, who believe that under the circumstances, we should give up all attempt to collect the war debts. They think payment is impossible and that we should be realistic enough to cancel the debts. This is generally regarded as an extreme position. There is a larger body of opinion which calls not for a cancellation of the debts, but for a reexamination of the whole debt question. Those who take this view say that the debt settlements made after the war cannot be maintained. These settlements were made during a time of relative prosperity. Now conditions are such that no nation can meet the obligations imposed. We should, therefore, reopen the question and make new settlements based on the capacity of debtors to pay. We should at the same time make it as easy as possible for them to pay by breaking down our tariff walls just as much as we can without really crippling our own industries.

Present Situation

Congress does not accept either of these notions, but insists upon the letter of the law. It insists upon full payments. President Roosevelt does not advocate any general revision of the debt settlements. He will not go into the whole question all at once. He stands ready, however, to listen to any government which comes to him with the claim that it cannot meet its obligations. In that case, he will act, he says, as any just creditor always acts when a debtor who is in trouble comes to him. If the English government should approach the president and ask for a revision of its debt agreement, the president would listen to the argument. Perhaps he would agree to scale down the debt on the basis of capacity to pay. If he did so, however, he would have to submit the new agreement to Congress, for Congress alone has the power to change the debt contracts which have been entered into between this country and foreign governments. If the president should recommend a drastic scaling down in the case of any nation, a prolonged debate would no doubt ensue in Congress, and just now the president is anxious to avoid congressional debates. He is hoping for an early adjournment of Congress. The prospect is, therefore, that on June 15 there will be a general default by debtor nations.



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STEEL WORKS IN A LARGE INDUSTRIAL PLANT

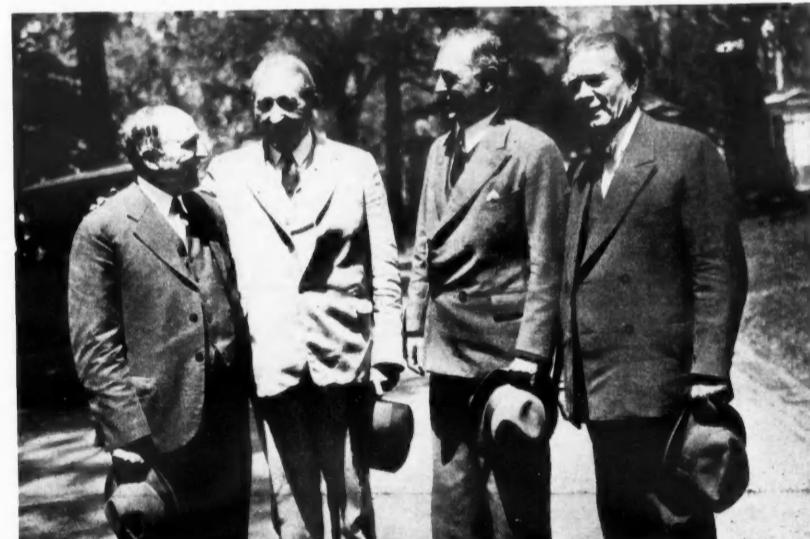
The administration is renewing efforts to revive the capital goods industry.

with what they have until the industrial skies have cleared. Banks may also hesitate to lend for purposes of expansion, fearing that future business might not justify the expansion and that the loans might hence be insecure.

The Securities Act

Another explanation is to the effect that the government, by the passage last year of the Securities Act, has discouraged the borrowing by corporations for the purpose

can recover the difference between the price he paid and the market price at the time action is taken. Furthermore, he is not required to show that he bought as a result of the misstatement, nor must he prove that it was the misstatement which caused the price of the stock to fall. This act constitutes a drastic means of compelling corporations to tell the whole truth when they issue stock. It places a very heavy penalty upon every director of the corporation if they do not. It substitutes for the traditional principle, "Let the buyer beware," the principle, "Let the seller beware." It undertakes to correct a major abuse of American business.



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THEY THINK THE CURE LIES IN SILVER LEGISLATION

Leaders in the silver group in the Senate who believe that the wheels of commerce and industry can be started by action on silver. Left to Right: Senators Alva B. Adams (Colo.); William H. King (Utah); Key Pittman (Nev.); William E. Borah (Idaho).

of expansion, and that since corporations are not expanding their plants, the demand for machinery of all kinds has not appeared. The general features of the Securities Act were explained in THE AMERICAN OBSERVER, April 23, 1934. The following paragraph, quoted from THE AMERICAN OBSERVER of that date, gives an idea of the restrictions placed upon corporations when they seek to expand by issuing stock:

The securities act requires of each corporation issuing stock an elaborate statement of the company's condition, and if any fact de-

The government, realizing the importance of stimulating the capital goods industries, has embarked upon a comprehensive program looking to that end. It seems certain for one thing that the securities act will be modified. The Senate, in passing the stock exchange regulation bill, added an amendment which modifies the Securities Act. It provides that the purchaser of stock can recover, in case a false statement was made in issuing the stock, only the amount which he lost as the result of the false statement. This reduces



The National Capital Week by Week



A Record of the Government in Action



IT IS a common saying among Washington correspondents and other residents of the capital city that Washington is insulated from the rest of the country. The action and reaction of political news and gossip leads to a feeling that the District of Columbia is a vacuum, where the concerns of Americans in Iowa or Georgia or Oregon or Maine always seem rather theoretical and unreal. "The farmer," for instance, is almost a mythical being, like a character in an Elizabethan miracle play.

Dust and Drought

But during the week-end of May 12 the attention of Washington and the eastern part of the country in general was called to the condition of the midwestern farmer in a very effective fashion. Mother Nature did it. An enormous dust cloud, blown eastward across the United States after being picked up from the dry surface soil of the upper Mississippi and Missouri river valleys, hovered over the eastern states like a mysterious and very dingy fog. The dust suspended in the air covered the sky, shutting out the sun's rays over an area several hundred miles wide, and ranging in height from one to three miles.

No amount of abstract talk about wheat acreage and inches of rainfall could have brought home to the East such a strong realization of the serious situation caused by drought in the winter and spring wheat belts. Not since 1894, said Secretary of Agriculture Wallace, has such havoc been caused by dry weather. It is estimated that winter wheat has been destroyed at the rate of a million bushels a day from April 1 to May 12. Rye and other crops have been affected in the same way.

Looked at in one way, this may be considered fortunate. The AAA has been trying to reduce wheat production, in order to raise prices. Now the drought has furnished major assistance in this effort. We have about 270,000,000 bushels of wheat left over from other years for which there has been no market. It is likely now that this carryover will be reduced and that this year there will be no great problem of overproduction, in terms of buying capacity. Already the price of wheat on the Chicago exchange has shot upward.

But if we measure the drought in terms of human welfare rather than in terms of wheat, we come to an entirely different answer. Thousands of farm families will suffer more than ever because of the total or partial loss of their crops. Harry Hopkins, federal relief administrator, is worried. He believes the nation's relief problem next fall will be much more serious as a result of the drought.

A happening of this kind, involving the interests and hopes of a large class of Americans, turns a revealing light on the methods used to combat economic distress. The leaders in the Department of Agriculture do not enjoy their task of reducing crops while many people need food. They are doing that only because the machinery

of price, supply and demand call for it, if the purchasing power of labor is to match the product of the farm, so that those who have money can buy wheat, corn and cotton, and so that the farmer may receive a fair return.

At the same time they sometimes seem to be working at cross purposes with such an agency as the relief administration, which is trying to distribute the necessities of life to millions on relief rolls. So far heroic and sincere efforts have been made, much ground has been gained, and no one

Commerce. This action caused a flurry in administration circles. Dr. Thorp, formerly professor of economics at Amherst College, was named for the post by President Roosevelt, and has served for several months.

Thumbs Down

But the nomination had to be confirmed by a Democratic Senate, and Dr. Thorp was suspected of the gross error of being a Republican. Committee members, anxious to place "deserving Democrats" in as many positions as possible, rejected Thorp



Drawn for THE AMERICAN OBSERVER
THE PRINCIPAL SILVER PRODUCING STATES IN THE UNITED STATES

can say whether they will be entirely successful.

Blocking the Silver Bloc

President Roosevelt still has the congressional silver bloc "on the ropes." The group of senators from western silver-producing and agricultural states thought they had achieved a compromise with the president which would allow them to pass the silver bills they wanted. He told them that he favored a greater use of silver as backing for our currency. But when, in a later conference with Secretary Morgenthau, they found that it would take years to accomplish this purpose under the plan proposed by the chief executive and the secretary of the Treasury, they backed away from the agreement. Now the whole silver question is at a standstill, and it seems unlikely that any bill will be passed which will force the president to go farther along the silver path than he would like.

The Commerce Committee of the Senate refused a few days ago to approve the nomination of Dr. Willard L. Thorp as director of the Bureau of Foreign and Domestic Commerce in the Department of

on the ground that he did not have sufficient business experience for the job. Now the president has withdrawn the nomination, and employees under Dr. Thorp in the bureau are wondering whether they, too, will lose their places. Most observers think that Jim Farley, whose job it is to find room in the government for the deserving ones, played an important part in removing Thorp from the scene.

General Johnson has announced that the NRA is about to let the smaller industries go without codes. The experience with these little codes and the little business men has not been a happy one. Administrators say that about fifteen per cent of the industrial setup has caused nearly eighty-five per cent of their trouble and work. Now Johnson says these small businesses "aren't worth bothering about." Probably they will be organized under the Blue Eagle blanket agreement, which calls for wage and hour limits.

Beyond that there will be no effort to make specific code rules of fair practice. The NRA will concentrate on the large industries, and will spend the next few weeks or months going over the bid codes once

Something to Think About

1. Describe the process by which the war debts were created. What is meant by saying that they can be paid back in the same way, but not otherwise?

2. What do you think should be the debt policy of the United States?

3. Account for the fact that the general opinion throughout the country regarding the debts is in opposition to the opinion generally held by economists. Does it seem to you that expert opinion and popular opinion are often in opposition? Would you say that this lack of agreement between expert and popular opinion is a weakness of democracy? Do you have any suggestion as to what might be done to bring them into greater agreement?

4. Distinguish between consumer goods industries and capital goods industries. Account for the fact that the consumer goods industries have been more prosperous recently.

5. Do you agree with the statement that we cannot have a return to normal times until the capital goods industries get on their feet? What suggestions do you have as to a program which might bring about their revival? What is the government doing?

6. Do you agree with the editorial on *Insull* from the *Emporia Gazette*? What is meant

by saying that we are all partly responsible for the evils for which he is being punished?

7. Should the League in your opinion discontinue its work toward the reconstruction of China?

8. Do you think the drought which has affected the wheat crop and caused prices to rise is a fortunate happening, or is it unfortunate, or both? Give your reasons.

REFERENCES: (a) "Dollars and Sense," a book by Irving Brant published by John Day: New York. \$1.50. (b) War Debt Catechism. *The New Republic*, August 2, 1933, pp. 305-307. (c) Washington Huddle. *Business Week*, May 12, 1934, pp. 7-8. (d) How's Business? *Today*, April 28, 1934, p. 8 and p. 23.

PRONUNCIATIONS: Action Francaise (ak-shee-on'-o as in go, n scarcely pronounced, frah-sez, n scarcely pronounced, e as in met), Solidarite (so-lee-dah-ree-tay), Jeunesse Patriote (zhuh-nes-u as in hurt, e as in met, pa-tree-ot-a as in after, o as in often), Robert de la Roche (ro-bair duh-u as in hurt, la-a as in hat, rok-o as in often), Goebbel (guh-bels-u as in hurt).